THE RISE AND DECLINE OF ECONOMIC STRUCTURALISM IN LATIN AMERICA: New Dimensions[1]

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INTRODUCTION

More than half a century has passed since structuralism appeared as an "indigenous" program of economic development in Latin America. Given the poor performance of the region's economies largely under the guidance of neoliberal doctrines since 1980, the question of whether structuralism—associated with the UN Economic Commission for Latin America, or CEPAL[2]—still has any relevance is a legitimate one. In any event, structuralism's influence during the third quarter of the last century is admitted by friend and foe alike. My intent is not to determine whether structural analysis was "correct," but to examine some of the forms it took and show why they were important. These were structuralist approaches to import substitution, informality, and economic historiography. I further consider structuralism as a movement, and the reasons for its success and subsequent decline. The essay closes with a brief consideration of how structuralism survives today, given the vast changes in economic development theory over the last half century.[3]

1. I wish to thank *LARR*'s anonymous readers for their comments, and CEPAL for research facilities in June, 1998. Research funds were provided by the Social Science Research Council, the National Endowment for the Humanities, the Hewlett Foundation, and the University of Illinois. I also thank the Economics Department of the Universidade Nova de Lisboa for office space while I was writing this article.

2. Comisión Económica para América Latina y el Caribe.

3. I exclude structuralism's thesis on inflation and its fundamental contribution to dependency analysis—matters on which I have already had something to say. See Love, "Economic Ideas and Ideologies in Latin America since 1930," in *Cambridge History of Latin America*, ed. Leslie Bethell, vol. 6, part I (Cambridge: Cambridge University Press, 1994), 393–460; and Love, "The Origins of Dependency Analysis," *Journal of Latin American Studies* 22, no. 1 (Feb. 1990): 143–68.

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Latin American structuralism[4] in its initial form was largely the creation of the Argentine economist Raúl Prebisch, the director of his country's first central bank from 1935 to 1943, subsequently the executive secretary of CEPAL, 1949–63, and the first secretary general of the UN Conference on Trade and Development (UNCTAD), 1964–69. In his structuralist manifesto of 1949, *The Economic Development of Latin America and its Principal Problems*,[5] Prebisch introduced the notion of an industrial, hegemonic Center and an agrarian, dependent Periphery as a framework for understanding the international division of labor. He hypothesized that the two elements were related by a process of unequal exchange. Assuming a greater rate of technological innovation in industrial countries, he argued that there were different responses to the behavior of the business cycle by primary exporters and by manufacturers, resulting in secular effects. This process occurred primarily because of organized labor's power to maintain high wages, and therefore high export prices, in the industrial countries, and secondarily because of the existence of oligopoly in markets for manufactured goods (and its near absence in those for primary commodities). Thus, there was a tendency for the terms of trade of agriculture-exporting countries to deteriorate. (A similar explanation was developed by another UN economist, Hans W. Singer, and the thesis became known as the Prebisch-Singer argument.)[6] In addition, Prebisch emphasized 1) structural unemployment, owing to the inability of traditional export industries to grow and therefore to absorb excess rural population; and 2) external disequilibrium, because of higher propensities to import industrial goods in Latin America than to export traditional agricultural and mineral goods.

The school focused on structures, blockages, and imbalances, and hence the name "structuralism." This term, however, was not yet used to describe the approach that Prebisch and his team were developing and would not have broad currency until the 1980s;[7] earlier, it was usually described as *cepalismo*, but never as "prebischismo," since Prebisch always emphasized the team nature of his enterprise in Santiago.

4. Latin American structuralism is one of a family of structuralisms. These approaches were eclectic, but generally grew out of the German Historical School of economics and were widely employed in continental Europe until fairly recently.

5. The first edition of the work listed CEPAL as the author, but it was reprinted in 1962 under Prebisch's own name (Lake Success, N.Y.: 1950 [Spanish original, 1949]).

6. While Singer saw contrasting elasticities of demand for agricultural and industrial goods in the world markets as responsible for declining terms of trade, Prebisch viewed the root of the problem as that of factor markets—labor and capital.

7. The term was already employed to describe the school in 1971, however, by Stanley J. Stein and Shane J. Hunt in "Principal Currents in the Economic Historiography of Latin America," *Journal of Economic History* 31 (March 1971): 237. The notion of "structuralism" was probably an extension of the thesis of structurally-induced inflation, developed in the 1950s by Juan Noyola, Aníbal Pinto, and Osvaldo Sunkel.

Feeling their way in the initial decades of the subdiscipline of economic development, by the 1960s CEPAL economists were defining economic backwardness or underdevelopment in a manner that lent currency to the term "structuralism": underdevelopment was structural heterogeneity, that is, an economic assemblage characterized by heterogeneous technologies and production functions.[8] Underdevelopment was an uneasy mix of traditional and modern economies. For the early structuralists, industrialization was seen as the single most important objective in a development program, since historically the process was associated with rapid economic growth and high per capita incomes. Moreover, it seemed to offer at least a partial solution to the employment requirements resulting from the rapidly expanding Latin American population and the even faster-growing urban populations of the 1950s and 1960s.

In this paper, I will treat the structuralist school as a generator of ideas and policies. Although not an authentic "paradigm" (Thomas Kuhn) or a "scientific research program" (Imre Lakatos), structuralism did give birth to a series of ideas and derived policies that came to characterize the school. Its first and most famous thesis, concerning the deterioration of terms of trade for raw-materials producers, lives into our own day. In 2003 the director of CEPAL, José Antonio Ocampo, coauthored a long article on the subject with the appropriate title, "Returning to an Eternal Debate."[9] Using sophisticated methodologies and data sets, the authors argued that the long-term trend in commodity prices was downward, as Prebisch had alleged, but that it occurred not continuously, but with a sharp one-time adjustment around 1920, and a downward *trend* beginning around 1980. Earlier studies have, however, reached different conclusions.[10] The lack of a firm resolution to the fifty-year-old controversy has not deterred

8. Aníbal Pinto was principally responsible for this innovation. See Pinto and Armando Di Filippo, "Desarrollo y pobreza en América Latina: un enfoque histórico-estructural ," *América Latina: Una visión estructuralista*, ed. Pinto, Colección América Latina (México, D.F.: Facultad de Economía, Universidad Nacional Autónoma de México, 1991), 555–76; and Ricardo Bielschowsky, "Cincuenta años del pensamiento de la CEPAL: Una reseña," in *Cincuenta Años de Pensamiento en la CEPAL. Textos Seleccionados,* ed. CEPAL, vol. 1 (Santiago: CEPAL, 1998), 35.

9. José Antonio Ocampo and María Angela Parra, "Returning to an Eternal Debate: The Terms of Trade for Commodities in the Twentieth Century" (*Informes y Estudios Especiales Series*, no. 5, CEPAL, Feb., 2003) http://www.eclac.cl/publicaciones/SecretariaEjecutiva/3/LCL1813PI/lcl1813i.pdf (accessed April 2005).

10. Diakossavas and Scandizzo concluded that there was a tendency toward deterioration of (net barter) terms of trade, but that the tendency was small, "in most cases reversing itself given a sufficiently long time horizon" (p. 250). An earlier study by Grilli and Yang, considered a classic, supported the deterioration thesis for the period they studied (1900–1986). León and Soto, examining the data for Latin American nations only, argue that there was no long-term tendency toward deterioration for most countries.

those who believe Prebisch was right: In Europe, the leading antiglobalization organization, ATTAC (which prefers the term "*alter*-globalization"), was still using the Prebisch-Singer argument on its website in 2004.[11]

IMPORT-SUBSTITUTION INDUSTRIALIZATION (ISI)

Let us begin our examination of themes with structuralism's advocacy of Import-Substitution Industrialization (ISI), nowadays roundly condemned but perhaps poorly understood. Valpy Fitzgerald has described the program associated with structuralism and CEPAL as "state-led industrialization." The process was principally based on the substitution of domestic products for previously imported ones, or "import substitution." Among the reasons for pursuing ISI were the allegedly more rapid transfer of technological innovation in industry than in agriculture, thus raising economy-wide productivity levels; the greater absorption of labor in an era of rapid population growth and even more rapid urbanization; and the movement of factors of production into industry and away from exports, a process that would reduce the latter as a share of national output and improve the terms of trade.[12]

Import substitution was well underway when CEPAL was created in 1948, and in a sense CEPAL simply pushed hard in the direction that history was already moving, by attempting to make the process more rational. CEPAL's understanding of import substitution was initially one of responding to externally forced shocks—in particular, the disruption of international trade from the Great Depression through World War II. As such, it was "essentially a suboptimal solution."[13] As

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See Dimitris Diakossavas and Pasquale L. Scandizzo, "Trends in the Terms of Trade of Primary Commodities, 1900–1982: The Controversy and its Origins," *Economic Development and Cultural Change* 39, no. 2 (Jan. 1991): 231–64; Enzo R. Grilli and Maw Cheng Yang, "Primary Commodity Prices, Manufactured Goods Prices, and the Terms of Trade of Developing Countries: What the Long Run Shows," *World Bank Economic Review* 2, no. 1 (Jan. 1988): 1–47; and Javier León and Raimundo Soto, "Términos de intercambio en la América Latina: Una cuantificación de la hipótesis Prebisch-Singer," *El Trimestre Económico* 62, no. 2 (April–June, 1995): 171–99. These studies, like that of Ocampo and Parra, focus on net barter terms of trade, as opposed to income terms of trade and factoral terms of trade, for which literatures also exist.

11. "Quel développement pour une société solidaire et économe? Eléments pour le débat," http://www.france.attac.org/a2629 (accessed April 15, 2004). ATTAC stands for *Association pour une taxe sur les transactions pour l'aide aux citoyens*.

12. Advocates of ISI tended to ignore the consequences of the fact that such substitution turned the domestic terms of trade against export agriculture.

13. Valpy FitzGerald, "La CEPAL y la teoría de la industrialización," *Revista de la CEPAL*, número extraordinario (October 1998): 17, http://www.cepal.org/publicaciones/secretariaejecutiva/7/lcg2037pe/valpy.htm (accessed April 2005).

CEPAL developed its analysis through the 1960s, it defined three phases of ISI: The first involved the relatively easy substitution of simple domestically produced consumer goods for previously imported items. The second, more difficult, type involved the production of intermediate goods and consumer durables, a shift from "horizontal" to "vertical" ISI—so denominated to describe an integrated line of production of fewer final goods and their inputs. A third phase, the production of capital goods, would follow.[14] But the CEPAL notion of ISI, at least by the late 1950s, was based on the creation of a region-wide (as opposed to a national) market that would capture economies of scale in production.[15] The postwar process of ISI was successful in the sense of raising the share of manufacturing in the national product from the Depression years to the early 1980s, when, according to Bulmer-Thomas, import substitution contributed about 50 percent of the growth in manufacturing.[16]

In Henry Bruton's classic study, ISI has the positive feature of accelerating learning by managers and workers, and therefore expanding productivity.[17] The negative features of the process included discouraging the expansion of traditional and new exports to earn foreign exchange, and in fact the expansion of world trade in the 1960s and the contemporaneous penalization of exports in Latin America's ISI policies did not allow the region's economies to ride the trade boom, as East Asian countries were then doing. ISI further contributed to inflation because of monopolistic elements in the domestic market for industrial goods. From the point of view of economic nationalists, ISI also had the negative effect of favoring multinational corporations, which opened branch plants behind Latin American tariff walls.[18]

Of the problems associated with ISI, however, it is important, as several authors have noted, not to confuse excesses in ISI with bad macroeconomic policy—overvalued exchange rates, balance of payments

14. Each phase was characterized by different elasticities of demand.

15. FitzGerald, "CEPAL y la teoría," 3.

16. Victor Bulmer-Thomas, "Economic Performance and the State in Latin America," *Liberalization and its Consequences: A Comparative Perspective on Latin America and Eastern Europe,* ed. Werner Baer and Joseph L. Love (Cheltenham, UK: Edward Elgar, 2000), 27.

17. Henry Bruton, "Import substitution," in *Handbook of Development Economics*, vol. 2, ed. Hollis Chenery and T. N. Srinivasan (Armsterdam: North Holland, 1989), 1601–43. For an application of the notion of technical learning through ISI in Latin America, see the CEPAL-sponsored studies by Jorge Katz and Bernardo Kosacoff, "Aprendizaje tecnológico, desarrollo institucional y la microeconomía de la sustitución de importaciones," *Desarrollo Económico* (Jan., 1998).

18. "Surprisingly, in retrospect, the ISI industrialization received its initial theoretical boost from the early revisionist trade theorists . . . Raúl Prebisch and Hans Singer." Ozay Mehmet, *Westernizing the Third World: The Eurocentricity of Economic Development Theories*, 2d ed. (London: Routledge, 1999), 80.

crises, and inflation.[19] Since it is universally agreed that ISI has not been a viable policy for some time, we may ask to what extent it was responsible for the "macro mess" of the southern cone of South America in the 1960s and after[20]—soaring debt and deficits, rampant inflation, political and economic uncertainty, and, as a result, erratic growth. Dani Rodrik holds that it is essential to distinguish between the excesses of ISI and financial mismanagement, rather than conflating them. For Rodrik, "That [conflation] was certainly the approach taken by the World Bank" in the 1980s.[21] Rodrik extends a critique that Carlos Díaz Alejandro made in 1975 of the pioneer anti-ISI study by I. M. D. Little et al., *International Trade in Some Developing Countries*. This multinational study (1970) had lumped ISI with everything else that went wrong—inflation, overvalued exchange rates, balance of payments crises, et cetera. For Rodrik, "the consensus post-mortem view [of the debt crisis in developing countries] held the whole complex of import-substitution policies responsible for what was essentially a crisis of overspending exacerbated by the fickleness of international capital markets."[22]

Of course, this distinction does not mean that ISI as it was executed in Latin America was not related to many errors and excesses of government policy in Latin America, as Bulmer-Thomas and Fitzgerald have indicated. When the protectionist policy didn't have a "sunset clause" on protection, domestic as well as foreign firms in sheltered industries often became highly efficient at rent seeking, hiding behind tariff walls, or other forms of protection. At the Latin American level, Cárdenas, Ocampo, and Thorp see the historical development of protection as a "geological" process dating from the 1950s up to the liberalization measures of the 1980s, a process in which layers of protection had been added onto others, without diminishing levels of protection for increasingly mature manufacturing concerns.[23]

19. Fitzgerald, to the contrary, holds that a major negative effect of ISI was the loss of control of the fiscal deficit, owing to populist pressures for employment, contracts, and welfare. This problem resulted in periods of rapid inflation, followed by abrupt stabilization policies that depressed private investment. Fitzgerald, "CEPAL y la teoría," 10, 17.

20. "Macro mess" is the term that Enrique Cárdenas, José Antonio Ocampo, and Rosemary Thorp apply to Latin America in general for the 1980s. See their "Introduction," to Cárdenas, Ocampo, and Thorp, eds., *An Economic History of Twentieth-Century Latin America*, vol. 3, *Industrialization and the State in Latin America: The Postwar Years* (New York: Palgrave, 2000), 28.

21. Dani Rodrik, "Understanding Economic Policy Reform," *Journal of Economic Literature* 34 (March 1996), 11, 27 (quotation).

22. Ian M. D. Little, Tibor Scitovsky, and Maurice Scott, *Industry and Trade in Some Developing Countries: A Comparative Study* (London: Oxford U. Press, 1970); Rodrik, "Understanding Economic Policy Reform," 16 (citing Díaz Alejandro; the quotation is from Rodrik).

23. For more on the cumulative negative effects of import substitution, see Alan M. Taylor, "On the Costs of Inward-Looking Development: Price Distortions, Growth, and Divergence in Latin America," *Journal of Economic History*, 5, no. 1 (March 1998): 1–28.

These authors lay further indictments at the door of ISI: 1) As actually implemented—as opposed to CEPAL theory—it interfered with regional integration, which would have resulted in larger Latin American markets and therefore opportunities for firms to raise efficiency through economies of scale; and 2) ISI distorted price signals and punished exporters when the policy was pursued through a single overvalued exchange rate or a multiple rate favoring importers of industrial equipment and inputs.[24] Yet—like Rodrik—Cárdenas, Ocampo, and Thorp are unequivocal in viewing ISI as a problem related to the "macro mess," but distinguishable from it. They argue that the Washington Consensus, as presented in John Williamson's book, *The Progress of Policy Reform in Latin America*, "is grossly ahistorical" in viewing Latin America's ISI experience as an avoidable wrong turn.[25] Among other reasons, one might cite the fact that successful exporting nations in East Asia went through import-substitution industrialization first, as part of a sequence leading to export substitution.

Since ISI flies in the face of trade liberalization—point 6 of the proper policies listed in the Washington Consensus—it is interesting to note that the World Bank took an implicitly pro-ISI stance favoring local capital goods in 1962. After the collapse of Bretton Woods in 1971 and the first oil shock in 1973, the Bank became more tolerant of the process, as a means of addressing the dearth of foreign exchange credits. The Inter-American Development Bank had an even more favorable stance toward ISI in its early years.[26]

In acknowledging ISI's excesses, finally, we should note that Prebisch himself condemned the out-of-control process as early as 1963. He further denounced the actual pattern of industrialization in Latin America, pointing out that the exaggerated pattern of protection had allowed grossly inefficient industries to arise. Latin America had, on average, the highest tariffs in the world, depriving it of economies of scale and opportunities to specialize for export, Prebisch continued.[27] Moreover,

24. Cárdenas, Ocampo, and Thorp, *Economic History of Latin America,* 24–26.

25. John Williamson, *The Progress of Policy Reform in Latin America,* Policy Analyses in International Economics 28 (Washington, D.C.: Institute for International Economics, 1990); Cárdenas, Ocampo, and Thorp, *Economic History of Latin America,* 31.

26. As for the International Monetary Fund, it had a marginal role in policy on trade and industry, but like the World Bank, it occasionally favored expedient intervention, despite its pro-liberalization ideology. See Richard Webb, "The Influence of International Financial Institutions on ISI" in Cárdenas, Ocampo, and Thorp, 103–5, 110–12.

27. Raúl Prebisch, *Hacia una dinámica del desarrollo latinoamericano* (1963; repr., Montevideo: Banda Oriental, 1967]), 21, 41, 90, 99. See also Santiago Macario's blistering critique of the way ISI had been pursued in Latin America, published by CEPAL the following year: "Protectionism and Industrialization in Latin America," *Economic Bulletin for Latin America* 9 (1964): 61–101.

from the early 1960s CEPAL had attacked the discrimination against exports, the source of foreign exchange for further industrialization.[28]

A final consideration on ISI: It may be the case that what CEPAL had to say about it did not matter that much. Not only was the process happening anyway during the 1930s and 1940s when CEPAL picked up the theme, but the highly protectionist tariff levels of the Latin American nations were of much earlier provenience. Coatsworth and Williamson have recently argued that Latin America was the most protectionist region of the world from 1865 until World War I, after which other areas also became highly protectionist.[29]

Yet, there was more to state-led industrialization than tariff levels, and since we are now a quarter-century beyond ISI as a development strategy, the perspective from 2005 seems to show that the era of state-led industrialization was more successful than its critics would concede, beginning with Little et al. in 1970. A recent study by three Oxford economists on the standard of living in Latin America during the twentieth century—measured in terms of GDP per capita, life expectancy, and literacy—shows that Latin America performed best on all three indicators in the years 1940–1980, the era of import substitution. Astorga, Bergés, and FitzGerald venture that "this progress is probably related to state-led industrialization, improvements in public health, and urbanization."[30] Not only was economic growth higher in this "middle" period of the century, but the growth rate of per capita income was also less volatile during the ISI years. For the six largest economies of the region, considered as a group and providing more than 60 percent of Latin America's output after 1945, annual GDP growth in the ISI years was more than twice as great as that of the export age (1900–1940), and four-and-a-half times more than in the neoliberal era (1980–2000).[31] Of course, many

28. Aníbal Pinto, "Notas sobre industrialización y progreso técnico en la perspectiva Prebisch-CEPAL" in *América Latina: Una visión estructuralista*, 635–60. For a theoretical reconsideration of structuralism and its theorization of import substitution, showing that CEPAL anticipated most of its critics, see FitzGerald, "La CEPAL y la teoría."

29. With the exception of the United States in the immediate post–Civil War era. John H. Coatsworth and Jeffrey G. Williamson, "Always Protectionist? Latin American Tariffs from Independence to Great Depression," *Journal of Latin American Studies* (May 2004): 205–32.

30. Pablo Astorga, Ame R. Bergés, and Valpy FitzGerald, "The Standard of living in Latin America during the Twentieth Century" (working paper, QEH [Queen Elizabeth House] Working Paper Series—QEHWPS103, Latin American Centre, St. Anthony's College, Oxford, 2003) http://www2.qeh.ox.ac.uk/pdf/qehwp/qehwps103.pdf (accessed April 2005). The study covers the whole of the century for the six economically largest countries—Brazil, Mexico, Argentina, Chile, Colombia, and Venezuela—and 1950–2000 for the other thirteen, owing to insufficient data on this group for the pre-1950 years.

31. The rate of growth in 1900–1939 was 1.3 percent a year with a standard deviation (a measure of volatility) of 3.5; for 1940–1980, growth was 2.7 percent, and volatility 2.0; and for 1980–2000, growth was only 0.6 percent, and volatility was 2.4. Ibid., 6.

other factors beyond government policy—most notably, the performance of the international economy—contributed to this result, but the findings of the Oxford group suggest that the effects of ISI should be judged against those of other development strategies actually implemented, not textbook theory.

INFORMALITY

Although CEPAL's role in, and theorization of, ISI has been subject to much debate, rather little has been written about structuralism's contribution to the literature on the informal sector, defined in terms of characteristics of the production units in which the activities take place, rather than the characteristics of the persons involved, as specified by the International Labour Office (ILO):[32] Production units are unincorporated enterprises owned by urban households for which no separate accounting exists. Compare Víctor Tokman's simpler definition: Informality consists of "all [economic] activities performed beyond government regulation."[33]

The informal sector is now recognized as of paramount importance in the societies of Latin America. By one estimate, 56 percent of the economically active population in the region was employed in the informal sector in 1995.[34] It is hardly surprising that CEPAL-associated economists would be concerned with this matter, since the very definition of underdevelopment for structuralism concerned heterogeneous labor productivities.[35] Though Pinto is conventionally given credit for this definition of underdevelopment, he seems to have developed a notion already present in the work of a lesser-known economist at CEPAL, Zygmunt Slawinski, who worked there from 1953 to 1968.[36] As early as 1957 Slawinski was trying to measure the "marginal labor force," defined as those without a declared occupation. The writer differentiated this group, which he believed was large, from the underemployed. The urban marginal labor force was tenuously related to the market economy,

32. Ralf Hussmanns, "Developments in the Design and Implementation of Informal Sector and Similar Surveys—A Review of National Practices and Experiences." Doc. ICLS/16/RD2 (Geneva: International Labour Office, 1998).

33. Víctor E. Tokman, "The Informal Sector in Latin America: From Underground to Legality," *Beyond Regulation: The Informal Economy in Latin America*, ed. Tokman (Boulder: Lynne Rienner, 1992), 4. (The term "informal sector" was first used in an ILO study in Kenya in 1972.)

34. Rosemary Thorp, *Progress, Poverty, and Exclusion: An Economic History of Latin America in the Twentieth Century* (Washington, D.C.: Inter-American Development Bank, 1998), 221. This figure includes the rural sector as well.

35. Pinto and Di Filippo, "Desarrollo y pobreza," 555–76.

36. Hector Assael, interview with author, Santiago, July 15, 1998.

and Slawinski believed it was especially great in the service sector, pulling down average productivity, which consequently grew very little in Latin America between 1945 and 1955.[37] Ten years later, in 1965, Slawinski described what is now known as the informal sector as "the parallel economy." He emphasized the low productivity of workers in this sector, terming it as an inflation of employment—"an expansion of practically unproductive occupations."[38]

The greatest advances in understanding Latin American informality came when the ILO established PREALC (Regional Employment Program for Latin America and the Caribbean) in Santiago in 1968.[39] The first director was chosen by an ILO official, in consultation with Carlos Quintana, Executive Secretary of CEPAL, and Raúl Prebisch, at that time Director of ILPES (Latin American Institute for Economic and Social Planning),[40] a dependency of CEPAL.[41]

ILPES and PREALC worked together, and in 1973 Argentinean Víctor Tokman became Director of the latter agency, on Prebisch's recommendation, and led it for twenty years. In Tokman's view, the neoliberal globalization of the mid-1970s "had a tremendous negative impact on the [formal] industrial structure and employment,"[42] because, as firms in newly industrialized countries competed for markets, they sought ways to reduce costs. For Tokman and his collaborators the notion of structural heterogeneity remained important. But for Tokman, unlike Slawinski, the informal sector was "not just a left-over or marginal phenomenon, but a low-level stratum directly connected with other sectors and with some potential for development."[43] Unlike the famous interpretation of the informal sector by Hernando de Soto,[44] PREALC did not emphasize the faulty legislation, red tape, and rent-seeking bureaucracies as fundamental elements in the development of the informal sector. Instead, it stressed that the labor surplus of developing countries pushes down incomes (as Slawinski had argued) and "generates subsistence activities not dynamically linked to expanding modern sectors,

37. CEPAL, Séptimo período de sesiones, Documento de Sala de Conferencias no. 2, *Estudio sobre la mano de obra en América Latina* (La Paz, Bolivia: CEPAL 1957), Mimeo. 221, 365.

38. Zygmunt Slawinski, *La economía paralela* (Caracas: Fondo Editorial Común, 1972), x.

39. In Spanish, Programa Regional de Empleo de América Latina y del Caribe.

40. In Spanish, Instituto Latinoamericano y del Caribe de Planificación Económica y Social.

41. Gerard Thirion, "The Birth of PREALC (1968–1973)," in [Anon.], *PREALC: 25 Years* (Santiago: ILO, n.d.), 18.

42. Ibid., 39.

43. Tokman, "The maturity of PREALC (1973–1993)," *in PREALC: 25 Years*, 38.

44. Hernando de Soto, *The Other Path: The Economic Answer to Terrorism* (New York: Harper and Row, 1989; Sp. Ed., 1986).

but [rather] cater to low-income markets. . . . Average incomes are low, and the informal sector becomes more heterogeneous, as it contains segments with different possibilities of expansion."[45]

For Tokman most instances of informality lie on a continuum between legality and illegality, with the former defined as consisting of registration and inspections; a sustained commitment to pay taxes; and acceptance of labor regulations, rights, and privileges. Tokman points out that illegality is greater in manufacturing than in commerce, because of the existence of safety standards, laws protecting female and child labor, etc. He adds that government regulations were implemented to serve the general interest of society and to protect the most vulnerable groups. In making these assertions, Tokman stresses that for PREALC, regulation is not the *cause* of informality. Rather, operating beyond the regulatory structure is a way to produce goods and services in a situation characterized by surplus labor.[46] By focusing on the processes of production and providing services rather than the workers so engaged, Tokman also took issue with the "marginality" theory of José Nun and Aníbal Quijano, and agreed with de Soto that "marginals" did make a positive contribution to the modern economy.[47]

ECONOMIC HISTORIOGRAPHY

CEPAL from the beginning was inclined to take a long-term perspective, if for no other reason than the fact that secular deterioration of terms of trade occurred over decades. Prebisch's *Economic Survey of Latin America, 1949* (United Nations, 1951) had tried to view the sweep of economic history for the region, from the 1880s to the mid-twentieth century, and in more detail for the four most industrialized nations (Argentina, Brazil, Chile, and Mexico) in the same period. In some ways this volume was a model for country case studies to be carried out between 1959 and 1963—Celso Furtado on Brazil, Aníbal Pinto on Chile, Aldo Ferrer on Argentina, and later, Osvaldo Sunkel and Pedro Paz on

45. Tokman, "The Informal Sector in Latin America: From Underground to Legality," in *Beyond Regulation: The Informal Economy in Latin America*, ed. Tokman (Boulder: Lynne Rienner, 1992), 4.

46. Ibid., 5, 10, 18, 20.

47. Tokman, "Introducción: Dos décadas de sector informal en América Latina," in *El sector informal en América Latina: Dos décadas de análisis*, ed. Tokman (México ,D.F.: Consejo Nacional para la Cultura y las Artes, 1991), 15. In a Marxist approach to informality, Fernando Henrique Cardoso and other scholars at the Centro Brasileiro de Análise e Planejamento (CEBRAP) in São Paulo had made a similar argument in the early 1970s. See a summary in Love, *Crafting the Third World: Theorizing Underdevelopment in Rumania and Brazil* (Stanford, Calif.: Stanford U. Press, 1996), 210–11.

the whole region in a more summary fashion.[48] Implicitly, structuralist historiography was instrumentalist: The writers sought to influence future policy by analyzing the errors of the past, as can be inferred from the fact that Ferrer's subtitle ends with "present-day problems."

Latin American structuralists sought to move economic history beyond a description of economic configurations, flows, and flux to a more analytic treatment of critical structures—both dynamic and relatively static elements in the economic ensemble—that underlay long-term performance as well as cyclical patterns. That is, they sought to specify those structures that had contributed to economic development and those which had impeded it. As a group, they sought to produce new periodizations of economic history, with sharp demarcations between "outward-looking" export phases or cycles and post-1930 "inward-looking" phases, led by the industrial economy. They further tried to explain persistent inflation and stagnation in new ways, as well as seeking to trace and explain the distribution of income arising from the growth process. The impediments and blockages to development, as well as the dynamic inequality of income distribution, frequently had their roots in the colonial past.

I will explore Furtado's work in more detail. More than anyone else at CEPAL, Furtado was responsible for "historicizing" structuralist analysis and departing from cyclical concerns, and the first iteration of what eventually became *The Economic Growth of Brazil* (published first in Portuguese in 1959) appeared in 1954.[49] His early sketches of the book in

48. Celso Furtado, *Formação econômica do Brasil* (Rio: Fundo de Cultura, 1959); Aníbal Pinto Santa Cruz, *Chile, un caso de desarrollo frustrado* (Santiago: Editorial Universitaria, 1959); Aldo Ferrer, *La economía argentina: las etapas de su desarrollo y problemas actuales* (México, D.F.: Fondo de Cultura Económica, 1963); Osvaldo Sunkel and Pedro Paz, *El subdesarrollo latinoamericano y la teoría del desarrollo* (Madrid: Siglo Veintiuno de España, 1970). The last-named work, which is only partly devoted to the history of the region, is strongly influenced by dependency analysis, which at the time of publication was at its apogee. (Note that Furtado's *Economic Development of Latin America: Historical Background and Contemporary Problems* [1970] is less satisfying as a historical study than *The Economic Growth of Brazil*, because of the former's much greater focus on current issues.)

Later, a more specialized structuralist work appeared on Mexico: René Villareal, *El desequilibrio externo en la industrialización de México (1929–75): Un enfoque estructuralista* (México, D.F.: Fondo de Cultura Económica, 1976). See below.

49. Furtado's pre-CEPAL dissertation does not contain much formal economic analysis of any kind. See Furtado, "L'économie coloniale brésilienne (XVIe et XVIIe siècles): Eléments d'Histoire Economique Appliqués" (PhD thesis, Faculté de Droit, U. de Paris, 1948); but *A economia brasileira* (Rio: A Noite, 1954) and *Uma economia dependente* (Rio: MEC, 1956) offer a structuralist analysis of Brazil's economic history. *Formação econômica do Brasil* was published in English as *The Economic Growth of Brazil* (Berkeley, Calif.: University of California Press, 1963). The English title is slightly misleading, since *formação* indicates qualitative aspects of development as well as quantitative growth.

1954 and 1956 offer evidence that Furtado's contribution precedes Pinto's, even though their "classic" studies both appeared in 1959.

Economic Growth covered the whole sweep of Brazilian history, and the colonial and nineteenth-century sections compare and contrast the structures of the Brazilian and U.S. economies, showing how Brazil's monoculture and latifundia impeded the high savings and investment rates characteristic of the American economy. Focusing on the distribution of income and the size of the domestic market, Furtado provided one of the first uses of modern income analysis in a historical framework, and demonstrated the weak relationship between income and investment in an economy based on slavery.[50] The work throughout is written from the point of view of a development economist, emphasizing the heterogeneity of technologies and production functions (including the vast subsistence sector) in the Brazilian economy.

Turning to the problem of economic cycles, already a major theme in the Brazilian literature, Furtado saw in the weak monetization of the slave economy a kind of resilience, in that export stagnation or decline could be sustained as the free but plantation-oriented population moved toward the backlands: The subsistence economy absorbed the excess labor supply after the exhaustion of successive export booms. In a slave-based economy the response to depression is different from that of a fully capitalist economy; in the former, "entrepreneurs" have fixed costs (maintaining their slave populations) and are not in a position to contract their agricultural output. For example, when the sugar economy declined in the seventeenth century, the livestock economy expanded but became increasingly subsistence oriented, and average labor productivity, by inference, fell.[51] This economic "involution," as Furtado called it, was the opposite of development, since each historical export boom until coffee (brazilwood, sugar, gold, and—contemporaneous with coffee—rubber) led to retrogression, not to sustained growth.[52]

Differences in the growth and diversification of the production structure of the Brazilian and U.S. economies in the first half of the nineteenth century were not accounted for by the greater degree of tariff protection in the United States, Furtado believed, but by the differences in social structure and income distribution, and therefore the size of the domestic market. In fact, Furtado estimated that Brazil's continually falling exchange rate provided more protection for domestic industries than

50. Werner Baer, "Furtado Revisted," *Luso-Brazilian Review* 2, no. 1 (Summer, 1974), 115.

51. Furtado, *Economic Growth*, 69–71; Ricardo Bielschowsky, "Brazilian Economic Thought in the Ideological Cycle of Developmentalism" (PhD diss., Leicester University, 1985), 243.

52. On "involution" see Furtado, *Economic Growth*, 71.

higher tariffs would have.[53] But more importantly, Brazil suffered from a small domestic market; lack of modern technology, entrepreneurship, and capital; and its small "capacity to import" (defined as the unit prices of exports times quantities sold).[54] For Furtado, Brazil's national market dated from the last years of the nineteenth century, when a modern working class came into existence. Beginning in the late 1880s, when wage labor replaced slave labor in São Paulo's coffee fields, Brazil began to develop a significant home market. In Furtado's view, wages paid in the coffee sector provided the "nucleus of a domestic market economy," with the implication of an attendant multiplier effect.[55]

For Furtado, the big change in relative market size, however, occurred after the crisis of 1929, in which the coffee economy, which had risen to 70 percent of the value of national exports, abruptly collapsed. In Furtado's estimation, the decisive shift toward an economy based on the stimulus of domestic demand took shape in the early 1930s. Werner Baer has noted that Furtado's analysis of events in the Great Depression accounts for less than a tenth of the space in *Economic Growth*, but it is the theme of the book that has generated by far the greatest amount of scholarly controversy.[56]

Furtado pointed to Brazil's rapid industrial growth during the Great Depression, caused in part by the "socialization of losses" of coffee producers through exchange devaluation: Devaluation passed planters' losses on to society as a whole. This process helped maintain domestic demand by keeping up the employment level and purchasing power in the coffee sector, which in turn permitted the rise of a significant domestic demand for industrial goods when foreign products were unavailable, owing to the absence of foreign exchange. The stockpiling and destruction of coffee in the face of grossly excess supply were financed through credit expansion, which in turn exacerbated the external disequilibrium and caused new exchange depreciation, leading to a further socialization of losses and a new round of the "losses effect."[57]

Furtado viewed the expansionary fiscal and monetary policies related to coffee as a form of unwitting Keynesianism, because the wealth destroyed in coffee beans was considerably less than that created by maintaining employment.[58] He then noted that output of capital goods in Brazil by 1932 was 60 percent greater than in 1929. Furthermore, net investment in 1935, at constant prices, was greater than that in 1929, and the level of

53. Furtado, *Economic Growth*, 107–8.
54. Bielschowsky, "Brazilian Economic Thought," 241.
55. Furtado, *Economic Growth*, 167.
56. Baer, "Furtado Revisted," 119.
57. Furtado, *Economic Growth*, 205–6.
58. Ibid., 211.

aggregate income of the latter year had been regained, despite the fact that the import of capital goods was only half of the 1929 figure.[59] Therefore, the economy was undergoing profound structural change.

For him, as for other structuralist contemporaries, the Great Depression was a watershed in which the larger Latin American economies moved definitively to an economy in which the domestic rather than the international market was the motor of growth, and for which industrialization led the growth process. Furtado's views on Brazilian industrialization in the Depression touched off a long debate.[60] Although the centrality of industrialization as the dynamic element in growth during the Great Depression has largely been confirmed for Brazil, Argentina, Chile, and Mexico, it now appears that the disruption in international trade during the world wars and the Depression was less important in producing "inward-directed growth," in Prebisch's phrase, than was believed by some contemporaries to these events, and by CEPAL economists later.[61] In any event, econometric research in the 1990s suggests an important correlation between postwar economic growth and participation in international trade,[62] contrary to the structuralist thesis. A now widely held view is that investment in industry (capacity) grew in line with export earnings for the period 1900–1945, while output (but not capacity) tended to rise during the shocks of war and depression, when imports had to be curtailed. Capacity during the Depression could not grow appreciably in Brazil—nor in the several other industrializing Latin American nations—for lack of exchange credits to buy capital goods and

59. Ibid., 218–19.

60. For a review of the debate, see Wilson Suzigan, *Indústria brasileira: Origem e desenvolvimento* (São Paulo: Brasiliense, 1986), 21–73.

61. For case studies of Latin American countries, including Brazil, see essays in Rosemary Thorp, ed., *Latin America in the 1930s: The Role of the Periphery in World Crisis* (London: Macmillan, 1984). For the best overview of the Depression across Latin America, see Victor Bulmer-Thomas, *The Economic History of Latin America since Independence* (Cambridge: Cambridge University Press, 1994), chapter 7. Bulmer-Thomas concurs with previous revisionists and finds that import-substitution industrialization was significantly dependent on export recovery, except in Argentina (222–24).

62. On the positive association of trade and growth in the postwar era, see Ross Levine and David Renelt, "A Sensitivity Analysis of Cross-Country Growth Regressions," *American Economic Review* 82, no. 4 (Sept.,1992), 942–63, examining data for 119 countries; and Hadi Salehi Esfahani, "Exports, Imports and Economic Growth in Semi-Industrialized Countries," *Journal of Development Economics* 35 (1991), 93–116, considering data for 31 semi-industrialized countries. Esfahani emphasizes that the correlation between export and GDP performance has mainly to do with exports' foreign exchange earnings; they mitigate import "shortages," which restrict the growth of output in these countries. But Clemens and Williamson have suggested economic growth and openness before 1950 were not positively correlated. See note 94.

inputs. Neither did it grow rapidly during the world wars, because of the unavailability of capital goods and fuels from the belligerent powers.[63]

Furtado's book has become a classic in Brazil, and its author was admitted to the Brazilian Academy of Letters in 2003. This work, like those of Pinto and Ferrer, is an essay, not a monograph, and suffers the limitations of such works. In its sweeping coverage of the whole of Brazilian history, *Economic Growth* is significantly based on weak, usually nonquantitative, sources. On some issues, there is little evidence to support the author's view. For instance, Furtado repeatedly refers to the "involution" of the economy of Minas Gerais—its return to subsistence production following the eighteenth-century gold cycle. But Roberto Borges Martins has argued that no contemporary observer of nineteenth-century Minas noted such decadence, and that economic and demographic data provide evidence for refuting such claims. Roberto Martins and Amílcar Martins Filho argue that regional markets, as opposed to export markets, kept the Mineiro economy dynamic in the nineteenth century, contrary to Furtado's assertion that the nineteenth-century coffee export economy absorbed Minas's underutilized slave labor force.[64] It was not underutilized, argues Roberto Martins, because Minas was a net importer of slaves in the nineteenth century. On Minas's "involution," therefore, Furtado may not only be guilty of speculating beyond his sources, but even of ignoring them.

Serious criticisms have also been made of the essays by Aníbal Pinto and Aldo Ferrer.[65] In Pinto's case, the main contention of the book—that Chile's economy suffered from the presence of foreign capital in the export sector and a lack of entrepreneurship after 1860, and therefore failed to industrialize, was contradicted by a study by José Gabriel Palma, who found that Chile probably industrialized more fully than any other Latin American country before World War II. By 1934, domestic suppliers were producing 90 percent of the manufactured goods consumed in Chile, and by 1935, over 70 percent of the durable consumer and capital goods.[66]

63. During World War II, Brazil's growth was perhaps less hampered because of the existence of a small capital goods sector.

64. Roberto Borges Martins, "A Historiografia sobre o Século XIX em Minas Gerais: Notas para um debate" (Paper presented at Seminário sobre a História de Minas Gerais, Belo Horizonte, June 2004). On the dynamism of the non-export economy of nineteenth-century Minas, see Amílcar Martins Filho and Roberto B. Martins, "Slavery in a Nonexport Economy: Nineteenth-Century Minas Gerais Revisited," *Hispanic American Historical Review* 63, no. 3 (1983): 537–68.

65. See the criticism in Stein and Hunt, "Principal Currents," 243–47, focusing on vagueness and incompleteness in Pinto's and Ferrer's arguments.

66. José Gabriel Palma, "Growth and Structure of Chilean Manufacturing Industry from 1830 to 1935: Origins and Development of a Process of Industrialization in an Export Economy" (Ph.D. thesis, Oxford U., 1979), 344–45.

A later structuralist history treated another large country, Mexico. But René Villareal, in *El desequilibrio externo en la industrialización de México (1929–75): Un enfoque estructuralista* (México, D.F. 1976), provided a much more monographic work. It covered a shorter time period than the "classic" essays; it focused on a single problem, industrialization; and it employed relatively good statistical data. Even so, the author found that structuralism accounted more adequately for Mexico's external disequilibrium in the period 1939–58 than in 1959–75. In a retitled second edition that extends the coverage to 1988, the author argued that *export*-substitution, particularly of manufactures, was the only viable path to further industrial expansion, in an approach he called "neostructuralist."[67]

Villareal's study exemplifies that structuralist history was not limited to *ensayismo*, but could aspire to scientific status in monographic research. However, we can easily conclude that the classic phase of structuralist history, a generation earlier, was richer in debate-generating hypotheses than in positive findings. Structuralists had asked important questions of their national histories, using formal macroeconomic theory. They were aware of the importance of good data, but made limited use of it, and sometimes the data didn't exist at the time they wrote. For example, historical estimates of GDP were lacking for most countries until the 1970s. It therefore seems appropriate to classify the bulk of structuralist historiography as "proto-economic" (or "proto-econometric") history, if I may make an analogy to the distinction between "pre-statistical," "proto-statistical," and "statistical" eras in economic and demographic history.

STRUCTURALISM AS A MOVEMENT

What made structuralism so important in the 1950s and 1960s, beyond the vitality of its ideas and personalities? First of all, its embedding in an international research institution enjoying direct contacts with economic decision makers, advisors and other researchers in national banks and finance ministries. It was the only Third-World school of economic thought so privileged. Raúl Prebisch was widely known as an accomplished central banker and authority on Keynes before becoming head of CEPAL in 1949, and, as his experience in several UN organizations was to show, he had formidable diplomatic skills. CEPAL was responsible to its member governments, and owed much of it influence to building a solid contemporary and historical database for the region

67. Villarreal, *Industrialización, deuda y desequilibrio externo en México: Un enfoque neoestructuralista (1929–1988)*, 2d ed. (México D.F.: Fondo de Cultura Económica, 1988).

and its component countries. "Thus it was possible to compare the growth and development of all the republics in a consistent framework, in many cases with measures of income distribution and poverty becoming available for the first time."[68]

Structuralists sought the support of both governments and industrialists. The reception of structuralism by manufacturers' associations varied, but the doctrine was welcomed in Brazil. Prebisch and Furtado worked in tandem to marshal Brazil's government behind CEPAL. They received critical support from Getúlio Vargas in 1951, his first year as a popularly elected president, to make CEPAL a permanent UN agency.[69] The two economists also courted Brazilian industrialists, participating in the debates of the National Confederation of Industries (CNI) in 1950. The organization and many individual manufacturers received Prebisch's thesis warmly.[70] In the same year *Estudos Econômicos*, the CNI journal, ran an article explaining and implicitly endorsing CEPAL's position, and in 1953 the Industrialists' Confederation financially supported a regular CEPAL session in Brazil.[71] A later CNI review, *Desenvolvimento e Conjuntura* (Development and the Business Cycle), founded in 1957, endorsed CEPAL's interpretations and proposals in its first editorial.[72] But in general, industrial leaders in Furtado's Brazil accepted state intervention and the "developmentalist" ideology associated with structuralism in the 1950s much more readily than did their counterparts in Prebisch's Argentina.[73]

Though a moderate interventionist, Roberto de Oliveira Campos probably had more influence than Furtado in formulating President Juscelino Kubitschek's Target Program, the president (1956–1961) largely embraced the CEPAL analysis of underdevelopment. In his first message to Congress, Kubitschek noted the vital role of government in economic development through infrastructural investment. He mentioned CEPAL

68. Bulmer-Thomas, *Economic History of Latin America,* 308.

69. Furtado, *A Fantasia organizada (Rio: Paz e Terra, 1985),* 120–22; Mateo Magariños, *Diálogos con Raúl Prebisch* (México, D.F.: Fondo de Cultura Económica, 1991), 140.

70. Furtado, *Fantasia organizada*, 106. See following notes for other documentation.

71. [Confederação Nacional das Indústrias], "Interpretação do processo de desenvolvimento econômico da América Latina," *Estudos Econômicos* 1, nos. 3–4 (Sept.-Dec. 1950), 271–306; Kathryn A. Sikkink, *Ideas and Institutions: Developmentalism in Brazil and Argentina* (Ithaca, N.Y.: Cornell University Press, 1991), 155; Sikkink, "Developmentalism and Democracy: Ideas, Institutions, and Economic Policy Making in Brazil and Argentina (1955–1962)" (PhD diss., Columbia University, 1988), 406.

72. See *Desenvolvimento e Conjuntura* 1, no. 1 (July 1957): 5–15 (including CEPAL's deteriorating terms-of-trade argument, the structuralist thesis that inflation is partly caused by bottlenecks in production, and the need for government planning or programming). Later numbers in the period examined (through 1960) were generally favorable to CEPAL.

73. Sikkink, *Ideas*, 154–57.

specifically as participating in the planning process, and endorsed CEPAL's indicative planning, which CEPAL called "programming." Kubitschek voiced approval of CEPAL's thesis on deteriorating terms of trade for primary producers, and the consequent and persistent balance-of-payments problems. For the president, this problem could be rectified by government promotion of exports and import substitution. Industrialization would permit the diversification of exports and industry would absorb excess labor from agriculture. Industrialization was an "essential condition" for the "rapid economic development of Brazil."[74] Furtado later wrote that the government's Target Program was directly inspired by CEPAL, and a student of economic thought in Brazil credits Furtado himself with introducing programming in the country.[75]

Perhaps the most effective means of diffusing the structuralist doctrine was by teaching it in short but formal courses. CEPAL had organized courses in basic economic concepts and techniques, along with structuralist doctrine, as early as 1952 (when Jorge Ahumada directed the teaching program). It also influenced the international master's program ESCOLATINA (at the University of Chile) later in that decade. These two institutions, often in collaboration with others outside Chile, trained and indoctrinated middle-ranking Latin American personnel in central banks, development and finance ministries, and university faculties. Scores of such men and women studied at CEPAL itself in courses varying from several months' duration to a year's length before the creation of ILPES in 1962. Instructors in the 1960s included such leading structuralist economists as Aníbal Pinto, Jorge Ahumada, Antônio Barros de Castro, Maria da Conceição Tavares, Carlos Lessa, Leopoldo Solís, and Osvaldo Sunkel, himself a graduate of the ILPES program. In sociology and political science, Fernando Henrique Cardoso, Torcuato di Tella, Rodolfo Stavenhagen, Aldo Solari, and Francisco Weffort offered courses.[76]

While its instructors were training aspiring civil servants and others in Santiago, ILPES also went on the road, offering short courses in a majority of the Latin American countries. Multiple sites were available in several countries, including eight in Brazil alone between 1963 and 1969.[77] If one takes into account the briefer seminars, between 1962 and 1992 ILPES offered over three hundred courses, registering over

74. Juscelino Kubitschek, *Mensagem ao Congresso Nacional: 1956*. (Rio de Janeiro: Imprensa Nacional, 1956), 47–48, 54, 275, 278, 362.

75. Furtado, *Economic Development of Latin America*, 208; Bielschowsky, "Brazilian Economic Thought," 182. For a survey of CEPAL's influence in the Brazil of the fifties, see Jacqueline A. H. Haffner, *A CEPAL e a industrializa*ção *brasileira (1950–1961)* (Porto Alegre: EDIPUCRS, 2002).

76. ILPES, "Programa de Capacitación 1963 [through 1969]." Mimeo, ILPES Archive, CEPAL.

77. Compiled from ILPES Archive, CEPAL, Santiago.

twelve thousand participants.[78] ILPES had influence at a variety of levels of the State, and, as one example, we may note that it greatly influenced the Economic and Social Development Plan of Minas Gerais, Brazil's second-most populous state. This was "the first true comprehensive document in the state's long history of planning."[79]

In 1990 the ILPES program in Santiago still included a strong dose of structuralism along with more technical matters.[80] But it should not be assumed ILPES was only interested in doctrine. As part of CEPAL, it played an important role in diffusing modern economic analysis and statistics, as well as in developing planning agencies and public administration schools.[81] In 2004, according to the organization's website, ILPES claimed a total of 15,000 graduates. Moreover, by that time it had published sixty textbooks, many of them in multiple editions.[82]

Structuralism also had an influence beyond Latin America. Although this is a subject that has not been researched adequately, I have written about its influence in Portugal, Spain, and Romania in the 1950s through the 1970s.[83] By the seventies Europeans were more interested in dependency, but the transition between the two sets of ideas was almost seamless, since former CEPAL social scientists were also leading dependency analysts—notably Furtado, Cardoso, Prebisch, and Sunkel.

THE DECLINE OF STRUCTURALIST INFLUENCE

Structuralism's influence waned for a variety of reasons. The decline perhaps began with CEPAL's own doubts, in the latter 1950s, when the institution noted that ISI was not working as it had anticipated.[84] The

78. Veronica Montecinos, "Economists in Political and Policy Elites in Latin America," in *The Post-1945 Internationalization of Economics,* ed. A. W. Coats (Durham: Duke University Press, 1996), 296.

79. In Portuguese, the plan's name was Plano Mineiro de Desenvolvimento Econômico e Social. Marshall C. Eakin, *Tropical Capitalism: The Industrialization of Belo Horizonte, Brazil* (New York: Palgrave, 2001), 155.

80. Instituto Latinoamericano y del Caribe de Planificación Económica y Social. "XXXI Curso Internacional: Desarrollo, Planificación y Políticas Públicas. Santiago, 25 de junio al 7 de diciembre de 1990," typescript at ILPES, Santiago.

81. Cárdenas, Ocampo, and Thorp, *Economic History of Latin America,* 12 (referring to CEPAL as a whole).

82. http://www.eclac.cl/ilpes/

83. Love, "Structuralism in Peripheral Europe: Latin American Ideas in Spain and Portugal," *Latin American Research Review* 39, no. 2 (June, 2004): 114–40; Love, "Flux şi Reflux: Teoriile Structuraliste ale Dezvoltării din Perioada Interbelică şi Cea Postbelică în România şi America Latină," *Oeconomica*, 11, no. 3 (2002): 269–83.

84. CEPAL first took note of the problem in Argentina as early as 1956. See CEPAL, "Preliminary Study of the Effects of Postwar Industrialisation on Import Structures and External Vulnerability in Latin America," in *Economic Survey of Latin America 1956* (New York: United Nations, 1957), 128, 150, 151.

import requirements of industrialization in the more advanced economies expanded more rapidly than national output, thus making them more, rather than less, dependent on international markets. Furthermore, in the 1960s, growth was fitful and national markets seemed to hit "demand ceilings" for durable goods, owing to the inequality in income distribution, as structuralists saw it. Beyond that, although CEPAL had decried the excesses of import substitution, neoclassical economists in Latin America and elsewhere blamed the agency for offering an ideological cover for protection at any cost.

Outside the region, the world economy was changing fast. Our treatment of international developments can be brief, and but these changes demand consideration because they were decisive. In the 1970s came the initiative of Third World countries to create a New International Economic Order (NIEO)—a movement of which Raúl Prebisch had been the initiator as the first secretary of UNCTAD.[85] The "Group of 77" nations that demanded the NIEO were influenced by the OPEC countries' success in quadrupling raw petroleum prices, and sought new trade relations between developed and underdeveloped countries. But the conflicting interests among the Group, which nonetheless quickly expanded its numbers, combined with the indifference or hostility of first world countries, led to the quiet death of the NIEO in the wake of the recession following the second oil crisis of 1979.[86] Meanwhile, the "East Asian miracle" was underway, and an increasing number of studies emphasized the liberalization measures of the new Asian tigers—even if this was a highly stylized version of events that tended to neglect various export subsidies. The first of such studies emphasizing liberalization and export-led growth was the previously mentioned book of I. M. D. Little et al., *International Trade in Some Developing Countries*. The success of the East Asian nations and city states in the seventies was followed by a similar promising performance in Southeast Asia, while Latin American countries, laboring under their enormous debts accumulated in the 1970s, experienced negative growth in per capita income during the "lost decade" of the 1980s. Furthermore, during the Reagan-Thatcher era, privatization made strides both at ideological and practical levels.

85. That Raúl Prebisch was the originator of this movement is asserted in a standard textbook on development theory and in a history of that subject. See the text of Michael P. Todaro, *Economic Development in the Third World*, 3rd ed. (New York: Longman, 1985), 560; and Heinz W. Arndt, *Economic Development: The History of an Idea* (Chicago: University of Chicago Press, 1987), 141.

86. For example, UNCTAD's Integrated Commodity Fund, whose purpose was to stabilize the earnings of commodity exports, was stillborn: It failed to get the united backing of the primary producers themselves, quite apart from not obtaining the support of the wealthy nations. Mehmet, *Westernizing the Third World* 112.

Concurrently, government intervention in the economy lost favor in the academy and in government policy circles, as the "Phillips Curve" seemed to show that governments would have to accept uncomfortably high levels either of unemployment or inflation.

Within the economics profession, the whole field of development economics was in crisis from the 1970s onward. Development theorists in general had stressed increasing returns to scale arising from expanding markets in the development process. But by the 1970s the economics profession was demanding greater standards of formalization and rigor, and since increasing returns to scale implied imperfect competition, the problem was that no one had succeeded in modeling imperfect competition. In Paul Krugman's words, "The result was that development economics as a distinctive field was crowded out of the mainstream of economics. Indeed, the ideas of 'high development theory' came to seem not so much wrong as incomprehensible."[87]

At the World Bank, where she was chief economist from 1982 to 1986, Anne Krueger was exposing the failings of ISI and calling for the curtailment of "rent-seeking behavior" in Third World governments; in the Latin American context Hernando de Soto's *The Other Path*, discussed above, examined the most obvious case of the failed state, Peru. There rent-seeking had reached new heights, and de Soto argued that the informal economy was thriving despite the fetters of government regulation.

At the institutional level an important realignment also occurred during the 1980s, by which the World Bank and the International Monetary Fund (IMF) closed ranks to operate in tandem. By the late 1970s the Bank had decided that individual projects "contributed little to development" without good macro policies, and in the 1980s the IMF began to make loans contingent on certain reforms, while the Bank moved into macroeconomic management. During the George Bush (Sr.) administration, Treasury Secretary Nicholas Brady urged the two institutions to adopt similar conditionality guidelines for the IMF's stabilization loans and the Bank's structural adjustment loans, and they complied.[88] At the level of theory, the Bank had already abandoned the "Big Push" thesis, with its emphasis on physical capital, and had adopted a position more attentive to the importance of human capital.

87. Paul Krugman, "Toward a Counter-Counter Revolution in Development Theory," offset, World Bank Annual Conference on Development Economics: 1992 (Washington, DC: World Bank, 1992), 33. A more widely-available version of his argument is found in Krugman, *Development, Geography, and Economic Theory* (Cambridge, Mass.: MIT Press, 1997), chapter 1. Krugman holds out the possibility that the theoretical problem can be solved.

88. On these matters see Jacques J. Polak, *The World Bank and the International Monetary Fund: A Changing Relationship* (Washington, D.C.: Brookings, 1994), 7, 12–13.

Of course the most stunning and consequential event of the eighties was the disintegration of the Soviet Empire in 1989, followed by the collapse of the Soviet Union itself in 1991. This event, marking the end of the "short" twentieth century (to use Eric Hobsbawm's phrase),[89] seemed to demonstrate the utter nonviability of "really existing" socialism. In economic terms, the Soviet Union fell apart because it failed to provide adequate incentives for good economic performance and simultaneously provided multiple opportunities for rent-seeking behavior; because it had no adequate mechanism of determining relative prices for its goods and services, and therefore induced inefficiencies; and because the regime's policy of secrecy impeded the diffusion of technical knowledge, most notably in the rapidly expanding fields of communications and electronics.

It was under these theoretical and political circumstances that the Washington Consensus was reached in November 1989, during a meeting organized by John Williamson at the Institute for International Economics. The consensus at issue was among representatives of the U.S. Departments of State and the Treasury, the IMF, the World Bank, and selected conservative think tanks, all in the U.S. capital. Williamson's now classic paper, "What Washington Means by Policy Reform," elaborated on ten points: fiscal discipline, public expenditure priorities (infrastructure, health, and education), tax reform, financial liberalization, achieving competitive exchange rates, trade liberalization, establishing the proper climate for foreign direct investment, privatization, deregulation, and strengthening property rights.[90] The very term "Washington Consensus," indicating an official American authorship, and the "marching orders" tone of the document would probably have been unthinkable even ten years earlier.

CONCLUSION

In the 1990s and beyond, the impressive performance of the Chilean economy seems to show the viability of neoclassical prescriptions for growth, although the highly unequal income distribution in Chile did not improve in that period, according to a new CEPAL study.[91] In any event, in Latin America as a whole, as indicated above, the neoliberal

89. Eric J. Hobsbawm, *The Age of Extremes: A History of the World, 1914–1991* (New York: Pantheon, 1994).

90. Williamson, "What Washington Means by Policy Reform," in *The Progress of Policy Reform*, 9–33.

91. On Chile's GDP per capita in the 1990s, see Penn World Tables, *http://datacentre2.chass.utoronto.ca/* (accessed April 2005); on income distribution, see CEPAL, *Una década de desarrollo social en América Latina: 1990–1999* (Santiago: CEPAL, 2004), 95.

program after 1980 produced poorer results than those of the "structuralist" period, in growth and in noneconomic measures of the "standard of living." At the least, these facts seem to bring into question the validity of neoliberalism in the region as it was actually carried out in the years after 1980.

Indeed, this seems to be true for the developing countries as a whole. William Easterly has shown that the median per capita income growth for 1980–98 in Third World nations was 0.0 (!) percent, compared to 2.5 percent in 1960–79. And he shows that variables commonly used in regressions to "explain" growth, for example, real currency overvaluation, health, education, fertility, and infrastructure, all improved in the less-developed countries, on the whole, from 1960–79 to 1980–98. Easterly sees this as a "disappointing outcome" for Washington Consensus advocates, who argued that their reforms would produce growth. He speculates that events and processes largely beyond the control of developing countries—such as the growth slowdown in the industrial world, and the rise in international interest rates—were responsible. Easterly further argues that growth regressions, the prevailing approach to economic development analysis, are often mis-specified because a stationary variable, growth, is regressed on non-stationary variables like government policy.[92]

One positive change noted by Easterly bears directly on the structuralists' oldest thesis—the (alleged) secular decline in commodities' terms of trade. Dependence on commodity exports has declined sharply over the period 1963–1998. More recent data shows this trend was strong in Latin America, with manufactures as a share of total exports (by value) rising from 34 percent to 48 percent between 1990 and 2002. In Argentina, Brazil, Mexico, and Chile they averaged almost 80 percent by 2002.[93] Such a phenomenon makes the ancient terms-of-trade thesis increasingly irrelevant for the development process.

Another recent paper by Lindauer and Pritchett suggests that perhaps the Big Ideas in economic development, from the Big Push of the 1940s and 1950s to the neoliberalism of the 1980s and 1990s, will not solve the problems of underdevelopment. They hold that there are some universal principles regarding good economic policy, but the principles have no prêt-à-porter institutional forms, as Easterly also argues. And some policies may be good in some phases of development, but bad in

92. William Easterly, "The Lost Decades: Developing Countries' Stagnation in Spite of Policy Reform 1980–1998," *Journal of Economic Growth* 6 (June, 2001): 135–57 (quotation, p. 137).

93. World Bank, *2004 World Development Indicators* (Washington, D.C.: World Bank, 2004), 200–5.

others, such as openness to the world economy.[94] Even if stable empirical associations between growth and explanatory variables are discovered, they may be "not under anyone's direct control and thus cannot have direct policy implications."[95] So they argue for a diagnostic, contextual approach.[96]

In such circumstances there would seem to be a place for CEPAL and its emphasis on greater equity, since income equity is one of the major "explanatory" variables against which growth is regressed.[97] CEPAL's concern with the distribution of income, combined with a renewed commitment to raising productivity through technological change, dates from the 1980s. The emphasis on equity goes back to the 1960s, when structuralists became committed social reformers in the wake of the Cuban Revolution. Moreover, only in the 1960s did scientific studies of Latin American income distribution become available.[98] The World Bank, under the leadership of Robert McNamara, brought the equity issue to the fore on a global scale in the 1970s.

The importance of the equity issue is revealed more broadly in CEPAL's research agenda on poverty and income distribution more broadly.[99] A rising star of the CEPAL team until his early death in 1991, Fernando Fajnzylber argued that a significant degree of equity in income distribution was necessary for economic growth, as well as for competition—"equity" implying anti-monopoly action in capital markets, which would raise the rate of technological progress.[100] Fajnzylber called for a more systemic absorption of technological progress (with accompanying advances in productivity) rather than the maintenance of low real wages in Latin American countries, as they sought foreign

94. They cite Clemens and Williamson, who examine the relationship between economic growth and measures of outward orientation. See Michael Clemens and Jeffery Williamson, "Why the Tariff-Growth Correlation Changed after 1950," (Working Paper 8459, National Bureau of Economic Research, Cambridge, Mass., 2001).

95. David L. Lindauer and Lant Pritchett, "What's the Big Idea? The Third Generation of Policies for Economic Growth," *Economia* (2002): 21.

96. Using a medical analogy, they argue for a "diagnostic tree" that will allow practitioners to examine symptoms that reflect treatable conditions. The tree would have at least five elements: "current level of income, current status of growth, linkages with the world economy, government strength, and government capacity" (Ibid., 26).

97. Income distribution *is*, of course, a variable over which governments can exercise some control.

98. Hilary Burger, "An Intellectual History of the ECLA Culture, 1948–1964" (PhD diss., Harvard University., 1998), 32, citing Víctor Urquidi.

99. On equity as a continuous CEPAL theme beginning in the 1960s, see author's interview with Osvaldo Sunkel, Santiago, July 23, 1998; and interview with José Antonio Ocampo, Santiago, July 6, 1998.

100. Fernando Fajnzylber, "La CEPAL y el neoliberalismo, coincidencias y discrepancias" [interview], *Industria y Desarrollo* 3, no. 10 (1991): 17–21.

trading partners. This was an explicit renunciation of the structuralist notion in the 1950s that any kind of industrial activity was desirable if it raised the average level of national productivity—thereby permitting economic rents for industrialists whose sheltered firms were producing below international productivity standards. After the deindustrialization of the 1980s, fewer jobs would be expected from industrial employment, and more from new and higher-productivity jobs in the service sector. Fajnzylber's ideas were incorporated into CEPAL's manifesto on Latin America's economic priorities for the 1990s, and equity continued to be a major research subject for CEPAL into the twenty-first century.[101]

101. See [UN] Economic Commission for Latin America and the Caribbean, *Changing Production Patterns with Social Equity: The Prime Task of Latin American and Caribbean Development in the 1990s* (Santiago, Chile: United Nations and CEPAL, 1990); and the report a decade later by CEPAL's Executive Secretary, José Antonio Ocampo: *Equidad, desarrollo y ciudadanía* (Santiago: CEPAL, 2000).